

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 DODE-00 PA-03 USIA-15 PRS-01 PM-07

DRC-01 SCEM-02 INT-08 /175 W
----- 096857

R 282102Z SEP 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8750

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LIMA

AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 5091

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: PETROLEUM CONTRACT NEGOTIATIONS

REF: QUITO 4151

SUMMARY: CAYMAN AND ANGLO APPEAR TO HAVE REACHED AGREEMENT WITH THE GOE ON NEW CONTRACTS. NEGOTIATIONS WITH OKC AND SHENANDOAH CONTINUE TO BE BESET BY DIFFICULTIES. ADA REPRESENTATIVES MAY BEGIN DISCUSSIONS WITH THE GOE WITHIN A FEW WEEKS ON A NEW CONTRACT TO REPLACE THE ONE ANNULLED BY THE GOE IN NOVEMBER, 1972. END SUMMARY.

1. AFTER THE SIGNING OF THE TEXACO-GULF AND SUN CONTRACTS IN AUGUST, THE MINISTRY OF NATURAL RESOURCES (MNR) TURNED TO NEGOTIATIONS WITH THE REMAINING OPERATORS IN ECUADOR UNDER A NEWLY EXTENDED DEADLINE OF OCTOBER 6. IN THE CASES OF CAYMAN AND OKC, THIS MEANT A SHIFT IN LOCALE OF NEGOTIATIONS FROM CEPE TO THE
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PARENT MINISTRY. EARLIER TALKS WITH CEPE WERE FAR FROM REACHING

AGREEMENT, AS CEPE FELT BOUND TO THE LETTER OF THE GOE'S MODEL ASSOCIATION AND SERVICE CONTRACTS. HOWEVER, THE PRINCIPAL MNR NEGOTIATORS, PETROLEUM ADVISORS RODRIGO CABEZAS, LUIS ARAUZ, AND BOLIVIAN, ENRIQUE MARIACA, HAVE BEEN MORE FLEXIBLE AND, ACCORDING TO CAYMAN AND OKC MANAGERS, APPARENTLY WISH TO ARRIVE AT CONTRACTS. ON A NUMBER OF IMPORTANT POINTS IN THE CAYMAN CONTRACT, THE MNR NEGOTIATORS MADE CONCESSIONS OVER STRONG CEPE OBJECTIONS.

2. CAYMAN MANAGER HAS INFORMED EMBASSY THAT AGREEMENT HAS BEEN REACHED ON DRAFT ASSOCIATION CONTRACT WHICH WILL BE PRESENTED TO THE CABINET OCTOBER 2. THE ASSOCIATION CONTRACT WOULD IMPOSE ALL THE TAX BURDENS CONTAINED IN THE TEXACO-GULF CONCESSION CONTRACT AND WOULD REQUIRE IN ADDITION THAT CAYMAN TURN OVER A SHARE OF PRODUCTION TO ITS ASSOCIATE CEPE, WHICH WOULD PARTICIPATE IN THE OUTPUT BUT NOT THE INVESTMENT. IF PRODUCTION IS 30,000 BPD OR LESS, THE CEPE SHARE WOULD BE 5 PERCENT. THIS SHARE WOULD RISE AT HIGHER PRODUCTION LEVELS, BUT IT WOULD NOT EXCEED 9 PERCENT AT ANY RATE OF PRODUCTION THAT NOW APPEARS TECHNICALLY FEASIBLE. (INDEED, NON-COMPANY SOURCES ESTIMATE CAYMAN PRODUCTION POTENTIAL AT 30,000 BPD.) THE MNR CONCEDED TO CAYMAN THAT THE CEPE SHARE SHOULD BE COMPUTED "AFTER TAXES", THAT IS, ON THE BASIS OF WHAT REMAINS FOR CAYMAN AFTER PAYMENT OF TAXES AND ROYALTIES. A MONETARY BOARD RESOLUTION ESTABLISHING THAT METHOD OF COMPUTATION IS BEING DRAFTED. CEPE REPORTEDLY IS STILL UNRECONCILED TO THIS AND CONTINUES TO SEEK BASING ITS SHARE ON FULL PRODUCTION, BUT CAYMAN EXPECTS THE COMPROMISE REACHED WITH THE MNR TO PREVAIL IN THE CABINET.

3. A SECOND MAJOR POINT WON BY CAYMAN (SUBJECT TO CABINET APPROVAL) WAS THE RIGHT TO EXPORT THROUGH EITHER THE TEXACO-GULF PIPELINE OR THE PUTUMAYO PIPELINE IN COLOMBIA, NOW PARTIALLY OWNED BY CAYMAN AND OPERATING AT ONE-THIRD OF CAPACITY. CAYMAN MANAGER BELIEVES THE MNR AGREED TO USE OF COLOMBIA PIPELINE BECAUSE THERE WAS NO ALTERNATIVE; TEXACO-GULF WILL PROBABLY USE THE FULL CAPACITY OF ITS PIPELINE. NEVERTHELESS, DESPITE IMPORTANT GOE CONCESSIONS, CAYMAN MANAGER CONSIDERS PROFITABILITY OF OPERATIONS UNDER THIS CONTRACT STILL UNCERTAIN.

4. OKC, IN PARALLEL TALKS, IS SEEKING TO NEGOTIATE A SERVICE CONTRACT. UNDER THE MODEL SERVICE CONTRACT, OKC WOULD BEAR THE TAX BURDENS OF THE HYDROCARBONS LAW AND WOULD SPLIT ITS PRODUCTION WITH

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CEPE. THE COMPANY HAS FOUND NO OIL, AND RECKONS THAT IN THE EVENT OF PRODUCTION, COST AND TAXES UNDER THE MODEL CONTRACT WOULD LEAVE LITTLE OR NO OIL TO SPLIT. AN ACCEPTABLE ECONOMIC FORMULA HAS NOT EVOLVED IN THE CURRENT TALKS, BUT THE MANAGER EXPRESSES THE BELIEF THAT A CONTRACT FINALLY WILL EMERGE.

5. ANGLO, WHICH NO LONGER HAS ANY U.S. PARTNERS, IS REPORTEDLY CLOSE TO SIGNING A CONTRACT SIMILAR TO THOSE OF TEXACO-GULF AND

SUN. WE UNDERSTAND THE CONTRACT PROVIDES SPECIAL TAX TREATMENT OF LOW GRAVITY OIL PRODUCTION. THIS PROVISION COULD MADE A SIGNIFICANT DIFFERENCE IN THE ECONOMICS OF FUTURE OIL OPERATIONS IN THE ORIENTE WHERE ONLY TEXACO-GULF HAS STRUCK OIL OF AS HIGH AS 30 DEGREE GRAVITY.

6. SHENANDOAH HAS ALSO MADE A PROPOSAL AND PLEA FOR SPECIAL TREATMENT OF OIL FIELDS WITH LOW GRAVITY AND LOW PER WELL PRODUCTION. SHENANDOAH NOTIFIED THE MNR IN AUGUST THAT, IF AN ECONOMICALLY ACCEPTABLE CONTRACT IS NOT WORKED OUT, THE GOE SHOULD CONSIDER THE SHENANDOAH CONCESSION TO HAVE BEEN REVERTED AS OF AUGUST 6. SHENANDOAH ALSO TRANSFERRED ITS QUITO MANAGER, BUT A REPLACEMENT IS EXPECTED TO ARRIVE SOON TO MAKE A FINAL TRY AT NEGOTIATING AN ACCEPTABLE CONTRACT.

7. ACCORDING TO THE LOCAL ATTORNEY FOR THE ADA GROUP, THESE COMPANIES MET RECENTLY IN HOUSTON FOR SEVERAL DAYS TO OUTLINE A PROPOSAL FOR A NEW CONTRACT COVERING EXPLORATION AND PRODUCTION OF NATURAL GAS IN THE GULF OF GUAYAQUIL TO REPLACE THE ONE ANNULLED BY THE GOE IN NOVEMBER, 1972. THE LAWYER SAID THAT THE ADA REPRESENTATIVES WILL BEGIN DISCUSSION WITH THE GOE ON THE PROPOSAL WITHIN A FEW WEEKS. MEANWHILE THE SPECIAL TRIBUNAL TRYING PERSONS CONNECTED WITH THE ORIGINAL AWARD OF THE GULF OF GUAYAQUIL CONCESSION, SUBSEQUENTLY TRANSFERRED TO THE ADA GROUP, HAS HANDLED DOWN DECISIONS SENTENCING 13 PERSONS TO PRISON TERMS RANGING FROM 1 TO 9 YEARS; THE DEFENDENTS HAVE APPEALED TO THE MILITARY COURT OF JUSTICE. IN KEEPING WITH THE GOE LINE DEVELOPED SUBSEQUENT TO THE CANCELLATION OF ADA'S CONTRACT, NAMELY THAT THE "ADA CASE" INVOLVING FORMER GOVERNMENT OFFICIALS AND THE ORIGINAL RECIPIENTS OF THE CONCESSION, IS COMPLETELY SEPARATE FROM THE QUESTION OF EXPLORATION, THE TRIBUNAL'S DECISION DOES NOT APPEAR TO PREJUDICE NEGOTIATION OF A NEW CONTRACT WITH THE PRESENT ADA GROUP OF COMPANIES. HOWEVER, THE ECUADOREAN LAWYER, CONFIDENTIAL

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JOSE MARIA PEREZ, WHO DREW UP THE LEGAL DOCUMENTS EFFECTING THE TRANSFER OF THE GULF OF GUAYAQUIL CONCESSION TO ADA AND SIGNED THEM IN HIS POWER OF ATTORNEY, WAS ARRESTED AND SENTENCED TO TWO YEARS IMPRISONMENT BY THE TRIBUNAL JUDGING THE ADA CASE. BREWSTER

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